

THE SPREAD OF ECONOMIC THEOLOGY: THE FLAT TAX IN ROMANIA

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1. Introduction

The fall of the Berlin wall signalled an end to the Soviet footprint across Eastern Europe and the prospect of a new vision and direction for those countries affected. If ideas matter, it seems likely that they'd be most visible following such a sudden collapse of an ideological system.

This paper is a case study that traces the spread of the flat tax, and analyzes the conditions that are necessary for its adoption. Of most concern are the early adopters, and since by definition there are only a few, empirical cases must be compared to hypothetical cases. By providing the factual history of the flat tax, with biographical accounts of key players, a conjectural history can thus be formed to establish which of the many variables were especially important. I will argue that faith – an underlying belief somewhat disjointed from certain knowledge – was essential. In other words, ideas are usually adopted for their empirical and operational content, but if this is lacking, due to the novelty of the idea, or the uncertainty of the political environment (for example when following regime change), then their normative content can generate a crucial carrying capacity. The flat tax is a fine example of this phenomenon.

2. Making Ideas Susceptible to Analysis

If rational choice theory can be convinced of taking ideas seriously, a solid definition of what ideas are must be generated to enable their mapping and observation; and an institutional structure must be identified for them to be created and exchanged. I will use *operational codes* to achieve the former, and *epistemic communities* to address the latter.

a. Labelling Ideas: Operational Codes

Whilst political and economic beliefs can be – and usually are – subjectively understood and tacit, so-called *operational codes* can reduce this vast array into manageable and identifiable beliefs. If 'ideas' are the multitude of assorted candy that fills an individual's conscience, operational codes are the colour-coded wrappers that define the particular flavour and enable comparison and exchange¹. George (1980)

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¹ I owe this analogy to Stephen Lai

divides operational codes into two categories: *instrumental* and *philosophical* beliefs. Instrumental beliefs are answers given by subjects on ideas relating to causal chains or the relation of means and ends in a given political context. Philosophical beliefs are more general premises that relate to abstract notions and fundamental values. Interviews and surveys can thus be administered to map individual's beliefs, and this can be compared with other people to accumulate patterns of common ground. Also, analysis of historical records such as books, speeches and biographical accounts can trace the spread of ideas over space and time.

Even though some operational codes will exhibit both of these properties, a detailed case study will be able to uncover the relative importance of each, and the scientific and theological elements can be compared. A set of operational codes will form particular policy issues, and due to their media exposure and historical record they are easy to track and analyse.

b. An Institutional Context: Epistemic Communities

If we view institutions as cognitive constructs that facilitate interaction between individuals (North 19xx), ideas must require a structure that permits their transference.

So called "Epistemic Communities" are a concept created by Ernst Haas and John Gerard Ruggie and trace the influence new actors have on national behaviour and the co-ordination of policy. Operational codes are free floating ideas that are anchored to a social context by epistemic communities. They are social networks of knowledge-based experts, holding an authoritative claim to policy-relevant and shared opinions.

An epistemic community can be defined as a group of actors who share principled beliefs, hold a common set of casual beliefs, shared notions of scientific validity and common policy projects (Haas 1992).

We can view epistemic communities as the channels that circulate ideas from academic institutions to government, as well as those who spread ideas from country to country. They are the institutional pre-requisite for inter-personal relationships. They can influence policies by framing alternatives, defining self-interests, shaping public opinion and providing respected advice and scientific data.

This function demonstrates why epistemic communities will be particularly evident amidst uncertainty, since the demand for interpretation and advice will be high. We should therefore expect epistemic communities to have a normative dimension, and for this normative dimension to become especially important at the policy level.

3. The Rise of the Flat Tax

The flat tax is a relevant, contemporary policy issue and therefore provides an excellent opportunity to unpack the forces that explain its adoption. It is also an exemplar example of an operational code that possesses both scientific and theological connotations.

The flat tax (or "proportional tax") bares all the energy and enthusiasm of novelty, but in actual fact is anchored within the deep tradition of taxation. Whereas a head tax levies a certain amount for each individual regardless of income, it's inherent bias against the poor makes it deeply unpopular. By contrast, a flat tax will charge a single rate on all

income, treating all types, and all levels of earnings equally. This was the norm until 1848, and Karl Marx's call for a 'heavy progressive or graduated income tax' to make the wealthy pay a larger share of their income. This progressive system was adopted with ubiquity, mirroring the general rise in the modern welfare state and Fabian thinking that underpins redistributive politics. A progressive income tax is susceptible to manipulation, and not only can this arise in perverse incentives to work (individuals can face widely divergent marginal taxation rates depending on their unique situation), but loopholes that shift income into other classifications. Progressive taxation suffers from its inherent assumption of political benevolence: in reality deductions, credits and exemptions serve mainly to fuel rent-seeking activity and failing to extract dues from those with the resources to circumvent the obfuscatory layers of tax code.

All flat tax proposals include a basic rate of exemption that means income below a certain level (typically higher than the basic exemption under a progressive system) is non-taxable. This step therefore ensures a degree of progressivity in the flat tax, but intends to offer a break for the poor, rather than punish higher earnings.

a. The Theological Foundation of a Flat Tax

While the flat tax story is typically traced back to when it first became challenged, a more thorough analysis will see evidence even farther into the shadow of history. As an example, tithing is a religious doctrine that is a flat tax. "Tithe" means a tenth, and is invoked by many Judo-Christian denominations as the proportion of income that a believer must donate to the church. Regardless of wealth, the tithe is a fixed rate and can be said to be the first flat tax. Abraham gave God a tenth of his spoils following war, establishing the verb "tithe" that appears throughout the Old Testament. During these times the tithe was applicable to agricultural products rather than straight cash, and this is one of many sources of dispute for modern churches. Another issue is the loss of explicit references to tithing in the New Testament, but the existence of references to offerings to God that can be interpreted as following the 10 percent tradition. Although the actual biblical basis for tithing remains contentious, there are two facts we can establish. Firstly, the concept has escaped strictly religious scripture and become part of society. Archaeological records have found the seals and jars known as "LMLK"¹, which originate from circa 700bc and 10% of which bare stamps. And secondly, some churches view the tithe as an integral part of man's relationship with God, and continue to sermon and demand it's levy from congregation.

Regardless of textual analysis, there is a clear theological basis for tithing, and a more modern economical basis for the flat tax. Consequently we should be able to trace some tessellation between the respective proponents – in the religious realm, and in political economy. Casual empiricism suggests that Protestant denominations have a greater propensity to tithe. This might well be down to their more personal relationship with the church, as contrasted to the Catholic position that tithing is divine ordinance rather than command from Christ. Similarly flat tax proponents are typically conservative groups that view the state as a contractual relationship, rather than deity. It is my claim

¹ Translated from Hebrew, this can mean "belonging to King" (whether a person or deity), or "belonging to the Government"

that the tithe and flat tax share similar theological foundations and therefore an understanding of the spread of the flat tax can also shed light onto the diffusion and adoption of religious ideas. However this correlation between the theological basis of a flat tax and Conservatism shouldn't be taken too far. *Every* idea contains a theological element, and a normative commitment to principled values will be evident for every type of policy proposal. Rather than single out the flat tax epistemic community as being particularly driven by shared values, I intend to use it as an example applicable universally. The strength of belief in this instance does not run counter to scientific validity – it's a blunt complement.

Economic ideas have a long history, but it seems wise to return to Adam Smith whose ties to theology have received attention¹. It is true that Smith hints that a proportional tax is not his favoured system², and he even critiques it outright with regard to agriculture³. Whereas his position on tithing is clear, as theology we are more concerned with his general principles of taxation, and the legacy that others have interpreted from him. Indeed Smith provides the defining outline of a taxation system (Smith, A., ([1776]1965) Book Five, Chapter II, Part II). This position highlights fairness, certainty, and ease of payment, expressing the user-friendly relationship with the state that characterises classically liberal beliefs. The citizen is viewed as a holder of inalienable rights, and contracts with the government to protect those rights. This is in contrast to the alternative – that states grant rights and government activity transcends market activity.

b. The Scientific Flat Tax Prescription

It is no surprise that the two great pioneers and practitioners of a c20th science of liberty - Friedrich Hayek and Milton Friedman – viewed the taxation system in essentially the same light, but went beyond Smith to provide scientific basis to a proportional tax. Hayek first advocated a flat tax as early as 1956, and did so again in *Constitution of Liberty*, building upon Adam Smith's emphasis on the effect of tax rates on expectations:

“It is the great merit of proportional taxation that it provides a rule which is likely to be agreed upon by those who will pay absolutely more and those who will pay absolutely less and which, once accepted, raises no problem of a separate rule applying only to a minority.”

Hayek, 1960:314

He continues to offer other advantages for a proportional rule, further echoing Smith: “since almost all economic activity benefits from the basic services of government, these services form a more or less constant ingredient of all we consume and enjoy and that, therefore, a person who commands more of the resources of society will also gain

¹ See Iannaccone (1991); Leathers and Raines (1992); Ekelund, et al. (2005)

² “It is not very unreasonable that the rich should contribute to the public expense, not only in proportion to their revenue, but something more than in that proportion.” *Wealth of Nations* (Book Five, Chapter II, Article I)

³ The tithe, as it is frequently a very unequal tax upon the rent, so it is always a great discouragement both to the improvements of the landlord and to the cultivation of the farmer. *Wealth of Nations* (Book Five, Chapter II, Article I)

proportionately more from what the government has contributed” (Hayek 1960, p.316). He also stresses the importance for taxation to fall evenly, and thus leaves consumption patterns unchanged. Soon after the first edition of *Constitution of Liberty* was published, Alvin Rabushka visited Hong Kong and became intrigued by their flat tax. Milton Friedman – a colleague of Hayek – encouraged him to pursue research in this field, and it culminated in the 1985 book *The Flat Tax*, co-authored with Robert Hall¹. This book would provide the policy proposal that subsequent politicians could rally behind and adopt.

Friedman had raised the flat tax in his own work of personal belief, *Free to Choose* (co-authored with Rose Friedman), saying:

“A low flat rate – less than 20 percent – on all income above personal exemptions with no deductions except for strict occupational expenses would yield more revenue than the present unwieldy structure. Taxpayers would be better off – because they would be spared the costs of sheltering income from taxes; the economy would be better off – because tax considerations would play a smaller role in the allocation of resources. The only losers would be lawyers, accountants, civil servants, and legislatures – who would have to turn to more productive activities than filling in tax forms, devising tax loopholes, and trying to close them.”

Friedman & Friedman, 1980:294

Friedman’s impact has been immense, and an appreciation of his works flows through the channels of free market economic thought. Together with Hayek, we can see an articulated science of liberty that serves as useful expositions of the epistemic community that we’re interested in.

c. The Flat Tax epistemic community

We defined an epistemic community as sharing certain principles, beliefs and values. The flat tax epistemic community will have principled values for freedom, liberty, equality before the law, and a general desire for minimal state. In this regard they are individualist in approach, and capitalist by method. They will also have common causal beliefs: for example that lower taxes will stimulate growth, or that simpler taxes creates economic activity. They are bound by the same validation techniques of economic reasoning combined with macro qualitative projections of tax incidence. A crucial element of the epistemic community is attention to the Laffer Curve – the graphical exposition that shows how tax rates can become so high that they reduce overall tax revenues². Finally, the common policy enterprise is the adoption of a flat tax, and the networking scope of the community is evident in the fact that policy proposals will be applied internationally.

As we shall see, successful adoption of a flat tax has been the result of American-based academics unable to counter the vested interests within their own legislature. The Hoover Institute, the Liberty Fund and the Volker Fund provided the finance and networking for the early promoters – Hayek, Rabushka and Friedman – to work within. Since their early influence, prominent western think tanks such as the Heritage

¹ See Hall and Rabushka (1985)

² See Laffer (2004)

Foundation and the Adam Smith Institute provide an institutional incubator and diffuser of flat tax ideas.

The fall of the Iron Curtain provided a perfect constitutional moment to spread free-market economic theology, and to do so effectively.

4. The Adoption of the Flat Tax

a. General Overview

The flat tax – along with school vouchers and privatisation – is one of a key bundle of free market policies that have been propagated by the free market epistemic community, and is therefore an unsurprising choice for countries that are intending to liberalise. Whereas Hong Kong has had a proportional tax on income for over 50 years, and Jersey and Guernsey¹ are other examples of a colonial laissez-faire, Estonia became the first sovereign nation to adopt a flat tax in 1994 setting a rate of 26%, and was soon followed (within a year) by Latvia (25%) and Lithuania (33%)². These Baltic countries responded well to the new taxation scheme, which led a general emergence as competitive economies. Russia adopted a 13% flat tax in 2001, and the large effect this had on tax evasion, creating a remarkable increases in tax revenue³, paved the way for a spate of others in 2003: Serbia (14%), Slovakia (19%), Ukraine (13%), followed by Georgia and Romania in 2005. Other former Soviet countries such as the Czech Republic, Croatia, Hungary, and Slovenia have flat tax proposals, as do similar sized economies such as Greece, Ireland and Malta. Remarkably, the flat tax is also on the radar of larger nations such as Germany, the US and the UK.

b. The Early Adopters: Faith in theory

The Estonian Prime Minister Mart Laar was a young, inspired and idealistic leader willing to make a bold step toward the vision of free markets that the flat tax epistemic community espouses. When he became a change agent – by moving from the epistemic community to the policy level – his statements and biographical accounts suggest two things. Firstly, he was aware of Friedman and Hayek. Secondly, he had faith that they were right. This opinion is derived from an economic theology that manifested within the flat tax.

“Like the idea that, okay, if you cut taxes, you will raise more revenue. That was only written in textbooks. I had faith that this was right, yes. But like with any faith, there’s always the sense that, ‘Gee, I don’t know, maybe this isn’t going to work.’ And it was really a miracle for me to see that things really started to happen just as the text books said they would happen. The same thing with the notion that if you balance the budget, then inflation will begin to fall. Well, this was hard to believe. I wondered to

¹ Two islands just off the Northern Coast of France, enjoying special constitutional status from the Great Britain

² Some debate exists as to whether Lithuania should classify as a Flat Tax country akin to their neighbours, see Rabushka (2005a)

³ see Rabushka (2005b)

myself: 'How will this happen?' But it did happen. So many things that we tried had never really been tried before, like a flat tax. But we did it and it worked. On one hand, you had to have lots of faith that these reforms would work. But I must say that, honestly, I always had my doubts."

Mart Laar, to City Paper¹

The empirical evidence that would follow this decision would confirm the theory, and provide crucial verification for other nations that would go onto adopt a flat tax.

Whereas Mart Laar was the policy entrepreneur that drove the flat tax in Estonia, in Russia it was Andrei Illarionov who would carry the policy goal from the dusty halls of academia to the marble walls of government. Illarionov is an ardent devotee of capitalism and has spoken publicly to make clear his position: "Every tariff and every limit on foreign-exchange transactions is a blow to our consciousness. Every tax acts against our freedom,"². Yegor Gaidar - another member of the flat tax epistemic community - brought him to Moscow. As the following quote suggests, Gaidar shared Laar's thoughts on the chasm between theory and the task of implementing policy.

"Yes, I read Friedman's books with interest, and also Hayek. They were very authoritative for us, but all the same far away from our domestic realities"³

As a member of Vladimir Putin's inner circle Illarionov is widely credited to have been the force behind Russia's adoption of a flat tax in 2001. In 1994 he founded the free market think tank *Institute for Economic Analysis*, and in 1999 he worked for the *Center for Strategic Planning*, securing a position within the Kremlin in 2000.

Estonia and Russia were the watershed, and grandest example of flat tax adoption, and there's no surprise that the epistemic community we've identified was at the heart of each. Operating within the deep uncertainty of regime change the epistemic community provided the baggage handlers of debate, creating a window through which policy entrepreneurs could leap. This leap was grounded in economic theory but also contained a theological element. Common belief that the economy was the "good side" of the infamous Laffer curve guided and prompted the epistemic community to seize the constitutional moment.

These early adopters had ample data regarding the current state of the economy, and projections that could provide an empirical grounding to a decision. However taxation is a complex policy to alter, and by definition you can never know ex-ante whereabouts on the Laffer curve you are. Consequently a radical policy such as a flat tax is a risky strategy, and by no means guarantees the results hoped for. But it appears that the early adopters were driven by something more than just an appetite for risk – they were committed to the principled values that underpinned the policy. Despite the estimations on national income accounting, they thought the policy was good *in itself*, and saw it as part of a broader strategy to make structural changes in the economy.

¹ Transcript available here: <http://www.balticsworldwide.com/larr.htm>

It is important to note that Laar's answer was in response to what could be considered to be a leading question. Personal correspondence is important to therefore establish a more robust answer.

² http://www.businessweek.com/magazine/content/02_24/b3787624.htm

³ cited in Boettke, 2003

Since expectations precede action, the fact that the actors implemented new policy (rather than keep the status quo) – i.e. acted – proves that they had an expectation about what the effects would be. And because the pervading uncertainty meant that the effects of a flat tax lacked a solid empirical basis, the expectation could not have been grounded in objective probability. Rather, the decision to adopt was grounded in a faith generated by the theological aspect of a flat tax.

These theological policies would in turn provide the evidence for other countries, reducing the need for an advanced epistemic community or strong will. To demonstrate this point we will turn to a case study of Romania, who adopted a flat tax in 2005.

c. The Case of Romania: Faith in the epistemic community

“The revolutions in Eastern Europe and the dissolution of the USSR, however, present a golden opportunity – a theorist’s dream – to control better for the independent effect of the different variables”

Checkel 1993:297

Former Soviet nations offer a fertile laboratory for study on account of the prolonged and enforced absence of economic ideas available to academics, policy-makers, media and the general public. Indeed Romania provides an especially conducive situation since (with the possible exception of Albania), free market ideas were more outlawed than any other communist nation. This meant that prior to the revolution there was not a domestic epistemic community and the year 1989 provides a clear event after which market ideas were able to flow. In other countries, there is an immense historical record of economic ideas that generates multiple threads, traditions and sources. The task of distinguishing between different influences and mapping the resulting network would be prohibitively overwhelming. But in Romania, although the epistemic community may be large, it is small enough to explore and trace causal chains of diffusion. The people most responsible for the spread of ideas are still alive and contactable and yet enough time has passed for the effects to be known and tentative assessments to be made.

A case study is most valuable when the “*phenomena under study is not easily distinguishable from the context*” (Yin 1994), or is a particularly unique and extreme situation. Since our purpose is to chart a policy stream, rather than merely document instances of an outcome, we require a method that produces operational links and not mere frequencies. Whilst a historical study can explain the facts behind an event, a case study based on direct observation, informal conversations and systematic interviewing is better adept at generating theory. It is therefore the consummate methodological tool for studying the implementation of the flat tax in Romania.

The case study was conducted over a 5-week period during the summer months of 2005. Over 30 formal interviews took place with representatives from academia, the government, and the press, and anonymous transcripts are available on request. Since the intention was to map the epistemic community, we did not require a random sample to find interviewees – we utilized the interpersonal network via recommendations. Since Anthony Evans and Gavin Ekins conducted interviews jointly (and utilised information for different research projects), there was investigator triangulation that ensured insights weren’t taken out of context, and were subjected to competing explanations. Also,

informal conversation; direct observation; and documentation, archival records and physical artefacts where consulted to corroborate interview data.

During interviews we asked question relating to principled values, causal beliefs, methods of validity testing and policy goals, in order to map the membership of the flat tax epistemic community. Five questions were asked to ascertain principled values (or normative issues), and these were: Should the state be actively involved in the redistribution of income? Do tariffs and customs duties reduce the quality of life of a nation? Should the state actively attempt to stimulate exports? Are state enterprises less efficient than private enterprises?

Causal beliefs (or broadly positive issues) were touched upon with the following: Rent controls lead to a reduction in the quality and quantity of available housing; Minimum wage laws lead to an increase in youth unemployment; Budget deficits lead to inflation; Flat tax leads to an increase in government revenue

Of those who answered over four of the first questions with “Yes”, and over four of the second bunch with “Yes”, the support of the flat tax was virtually unanimous. Although the questionnaire was deliberately designed to see if respondents gave immediate answers to vague and ambiguous questions, they were given ample time to discuss the question and provide a coherent picture of their beliefs.

As expected, those who were familiar with the free market epistemic community fell into two camps – those who refuse to engage in government activity, and those who will. This splintering suggests two things. Firstly, the Romanian epistemic community is still relatively young, and therefore there’s a modest division of labour. The diffusion of principled values (which at the extreme seek to abolish all taxation) thus prohibits the common policy platform. Whereas countries that have a richer tradition in free market ideas can satisfy both aspects, and therefore form a coherent and influential epistemic community, Romania is yet to do so. Although our evidence is essentially static, by comparing the age at which members of the community began forming their beliefs, and the creation of internal networks to generate new members (for example the *Center for Institutional Analysis and Development*, the *Romania Think Tank* have only just been formed), we can anticipate growth in the size of the community, lending further influence on a domestic epistemic community that can operate along more margins than currently.

Like other post-Soviet countries, Romania was burdened by a large informal economy and a massive fiscal burden devoted to tax collection. But even given the obvious need for fiscal simplification, the most striking aspect of Romania’s implementation of a flat tax is the speed of the entire process, from beginning to end. As a policy proposal it first appeared on the political radar in late 2003, and was supported by the Romanian Academic Society. Their proposal for Romania was adopted by the centre-right Alliance between the National Liberal Party and the Democratic Party, and an impact assessment suggested that evasion led to a an effective taxation rate of 16%. The Alliance proposed to align nominal rates to real ones, and used the flat tax (together with anti-corruption) as cornerstones of their 2004 election campaign. The decision to fight the election over the flat tax was mainly strategic, since the incumbent Finance Minister (of the Social Democratic Party), had previously endorsed fiscal simplification. The Alliance therefore ensured that their chief proposal was being debated with someone having to succumb to party line, and thus underlying their opponent’s hypocrisy.

Despite this particular strategic incentive, the flat tax was popular with the Romanian people. According to Aligica & Terpe (2005) 82% of respondents to an opinion poll run by the National Agency for Small and Medium Enterprises thought the flat tax was the most positive evolution of the past months. Also, in May 2005 *Capital* reported “more than half of Romanians agreed with the flat tax”.¹

An epistemic community has two strategies to enact action: alter a politician’s objective function directly by convincing them of the soundness of a particular idea, or secondly, to launch a broader campaign that changes public opinion and hence implicitly shifts the politician’s constraints. The civic culture of Romania is fairly infant, and we failed to find influential members of the media who had pushed hard for a flat tax. Rather, politicians such as Traian Basescu – a businessman, the former mayor of Bucharest, and current President - were driving the flat tax idea. Other political leaders from both the National Liberal Party and the Democrat Party sustained the project, but faced opposition. Former Liberal ministers such as Illie Serbacuescu and Daniel Daianu expressed concerns about the impact on the budget deficit, but as one although they objected to the rate (they wanted 20%) they weren’t objecting to the flat tax itself.

This seeming absence of a Romanian epistemic community belies the extent of the wider free-market network. The lack of public debate and relative scarcity of NGO activity was offset by the practical example of previous flat tax countries, especially Russia. Of the 35 interviewees who we asked about the flat tax, only 2 offered systematic explanations of Romania’s adoption. The others referred to the case of Russia, and the expectation that what had occurred there would be replicated on account of the similarity of their economies.

Once the Alliance won the national election on December 28th 2004 a narrow window existed to ensure that the tax code would be altered in time for the start of the next tax year (January 1st 2005). Throughout the night the printers published the new legislation, and it was voted on within 24 hours of the shift in power.

Initial results have been mixed, but it is clear that many of the pessimistic predictions (for example the IMF) have not occurred². More time is needed to provide an accurate judgement on the ultimate success of the policy, but the actual implementation was impressive. Political entrepreneurs – embedded within the flat tax epistemic community – seized upon the domestic situation and used the flat tax as a major electoral platform. This generated unprecedented public attention, exposed the opposition as hypocrites, and ensured delivered election success. Conscious that a mandate requires action, and again reacting to the local conditions the legislation was passed swiftly, yet another former Soviet nation joined the flat tax club, enacting substantial economic reforms.

d. Westward Ho!

The explanation given for Romania’s adoption of the flat tax is tied to the perceived similarities between the Romanian and Russian economies. The flat tax epistemic community could economise on performing detailed studies by relying on the emerging data from other nations, due to the underlying faith that the economies were sufficiently

¹ By Mercury Research, in Aligica & Terpe (2005)

² See Aligica & Terpe (2005)

similar. This method of diffusion will therefore cease if a country has different conditions. Western European countries have a lower appetite for reforms more generally, but also have different domestic realities (e.g. less concern over tax evasion). Consequently the theological component of the flat tax idea will become less relevant, and the scientific component will be the more important determinant of the future path. This will involve the production of projections to forecast the likely effects on macroeconomic statistics, as well as the impact on specific individuals. In other words, unless a constitutional moment can be created to steer hearts and minds toward the theological foundation of a flat tax, a more sceptical public (operating within a more sophisticated civic culture) will demand to know how a flat tax will affect the economy, and how it will affect their personal tax incidence. Using Great Britain as an example, epistemic communities such as the Adam Smith Institute, The TaxPayer's Alliance and Reform are all contributing to such simulations (Grecu 2005, Teather 2005, Heath 2006¹).

5. Conclusion

In this essay I have retained the assumptions of goal-seeking man, sensitive to material rewards and bounded by interests. But operational codes offer a means to flag and analyse ideas, which exist at a deeper level to bound and define interests themselves. Although interests matter, if opposing interests are cancelling each other out, or regime change alters the underlying structure of government, a constitutional moment exists in which ideas can also have an effect.²

Epistemic communities – or networks of knowledge-based experts – specialize in the creation and dissemination of ideas, and will emerge during uncertainty to promote their policy proposal. In this essay we have seen how the flat tax idea was formed, and has since spread shedding light on the institutional structures that are prerequisite for ideas to matter.

This approach, and the techniques and methodology employed, is by no means tied to the study of economic phenomena. As pursued throughout economics is itself a type of theology, since any treatment of ideas must stem from a subjectivist approach, and subjectivism demands treatment of belief systems, and epistemic choice. We can view the flat tax as an example of economic theology, and extend our approach to other (non-economic) beliefs and ideas. Any study of the spread of economic ideas must stand back in awe at the more professional and ubiquitous spread of religious ideas. As Mormon missionaries explore the Transylvanian forests of Romania, so too do free-market ones. Indeed both can sit in the moonlit carriage, hurtling through a Soviet wasteland, sharing thoughts (but not beers) and wondering just what is so different about their endeavours.

¹ Aside from presenting his own model, Heath (2006) provides a thorough overview of alternative flat tax proposals throughout Europe, as well as a survey of academic evidence. For an earlier suggestion see Forman, N (1996). Also Heath quotes an unpublished contribution from Howard Scott: "People in the UK have been talking about a flat income tax rate of 25% with a large personal allowance, say £10,000. This would not work. The psychologically crucial figure is 10% and if the pass is sold on this, all is lost" (Heath 2006:107). Note the attachment of psychological importance to the amount of a tithe, furthering the theological foundation of a flat tax.

² See Evans (2006)

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